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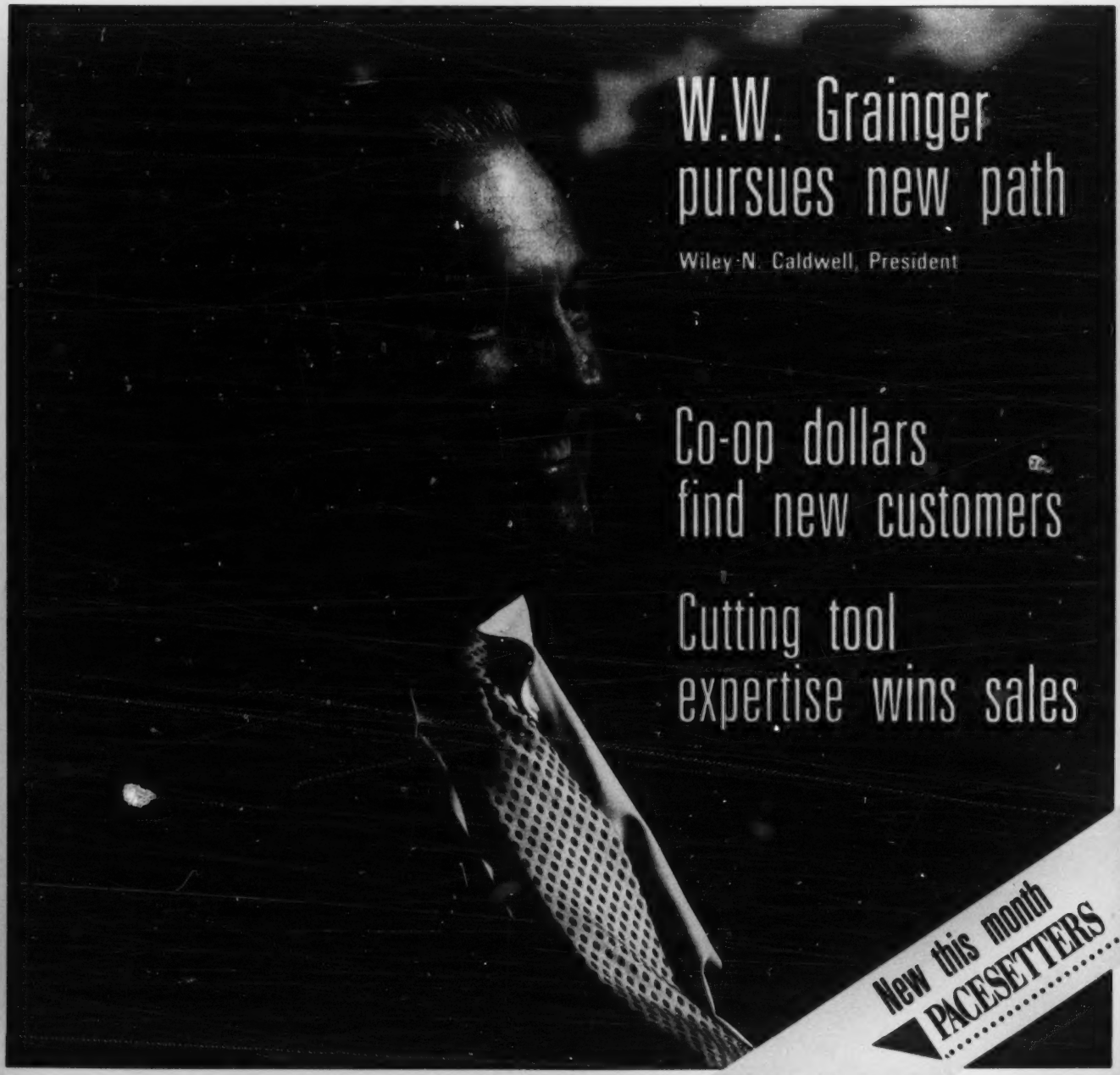
JANUARY 1990
A CAHNERS PUBLICATION

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

SPECIAL:

Presidents' outlook for '90



W.W. Grainger pursues new path

Wiley N. Caldwell, President

Co-op dollars find new customers

Cutting tool expertise wins sales

New this month PACESETTERS

Industrial Distribution

THE BUSINESS MAGAZINE FOR INDUSTRIAL DISTRIBUTORS

VOL. 79, NO. 1 JANUARY 1990 A CAHNERS PUBLICATION

Wiley N. Caldwell has added new dimensions to W.W. Grainger's operations.

Cover photography by Marc Berlow

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BUSINESS REPORT

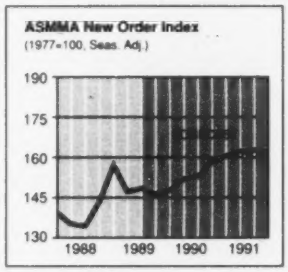
BY KRIS BLEDOWSKI

Fluid and PT growth slows

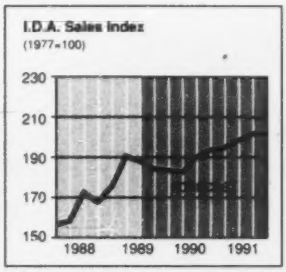
But fabricated metals will rebound

The miniboom among fluid power components, which helped the industry grow 8.5% last year, will definitely peter out this coming year. Export orders will decline sharply, and domestic consumers will not be able to make up the difference. Expect growth to slow down to a 1.8% annual rate by year's end.

Pneumatics will be the strongest fluid sector this year, and will grow at an expected rate of 6.2%. Industrial hydraulics have benefited from the general capacity expansion which many firms have undertaken in the past year or so. Expect this category to register a gain of 4.2%. Mobile hydraulics, the largest portion of the industry, have been weak and the prospects are slim. Our forecast calls for an increase of only 1.8%.



Data source: ASMMA
Forecast source: Cahners Economics



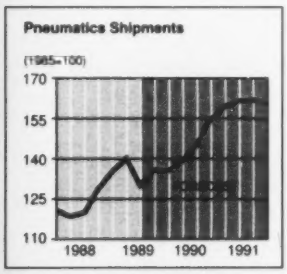
Data source: I.D.A.
Forecast source: Cahners Economics

Sales of mechanical power transmission equipment have been driven by the latest investment boom as well. This industry parallels fluid power to a large extent. Following last year's strong growth of 9.8%, shipments of power transmission components will rise 4.9%, well above the manufacturing industries' total. The production lag explains why orders were up only 2.8% last year while this year's gain in new orders will be a substantial 10.7%, anticipating an expansion.

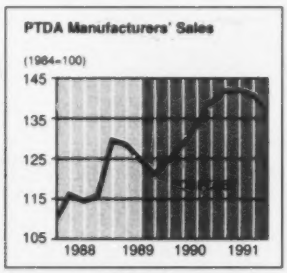
Power transmission component makers, supplying all durable goods producers, have also benefited from the latest export boom. Foreign markets will continue their importance in 1990 and 1991, albeit to a smaller extent than in previous years.

Output of fabricated metals, which peaks and troughs earlier than OEM in general, has been weaker than performance in most durable goods industries. After 1988's peak growth rate of 9.0%, production inched up 3.4% last year and will rebound 6.7% in 1990 before levelling off to an annual rate of 2.5% by 1991. Structural metal products rose faster, but this year's gain will be a modest 2.9%.

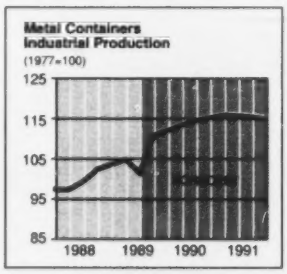
The forgings industry has finally begun to cool off from its strong growth during the past two years. Sales of impression die forgings will dip 2.2% this year to $2.86 billion after last year's advance of 8.1%. Conversely, orders are expected to slide 5.9% in 1990 following last year's plunge of 9.4%. □



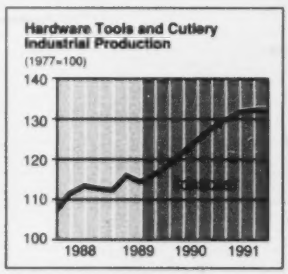
Data source: National Fluid Power Assn.
Forecast source: Cahners Economics



Data source: Power Trans. Distributors Assn.
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: Commerce Department
Forecast source: Cahners Economics

(1977=100)	SALES Oct. 1989	Sep. 1989	Oct. '89 vs Oct. '88 % change	RECEIVABLES Oct. 1989 days	INVENTORY Oct. 1989 % change
TOTAL	175.0	182.8	2.0	38.1	-0.5
EAST	157.7	163.9	6.8	42.7	0.7
SOUTH	248.3	266.2	9.7	37.4	-1.1
CENTRAL	141.8	163.4	-.2	38.7	-0.4
WEST	169.8	210.2	-0.5	35.7	-0.2

SOURCE: Industrial Distribution Assn.

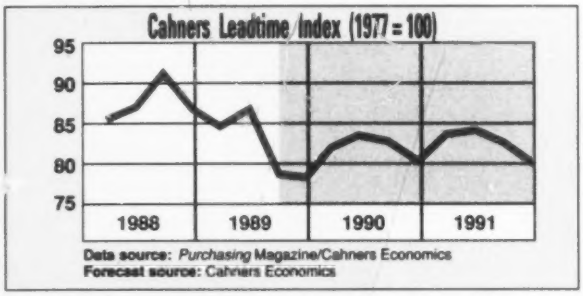
SUPPLY OUTLOOK

BY KRIS BLEDOWSKI

Process industries look bright

Prices will decline in 1990

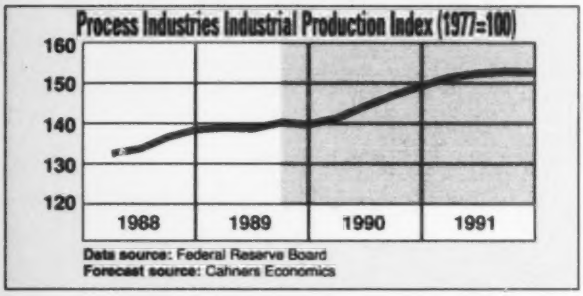
Process industry output is expected to advance almost 4.5% in 1990. Some industrial commodities will endure an inventory overhang early in the coming year and transaction prices will continue to tumble. Late in the year, renewed strength in manufacturing end-markets will revive commodity orders, industrial production will begin to rise, and both leadtimes and prices should begin to recover lost ground.



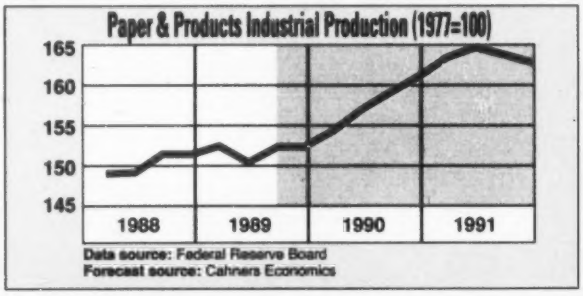
Demand for industrial materials slowed perceptibly in 1989. Confronted with slowing orders, shrinking backlogs and soaring prices, end-users reduced materials inventories this past year. The National Association of Purchasing Managers' inventory index has been below 50% since May of 1989. That means more than half of those surveyed were either reducing inventories or holding them steady. Process industry shipments growth slowed from 11% in 1988 to an estimated 6% this past year. Accordingly, factory output by processors fell from 6% growth in 1988 to an estimated 2.6% gain in 1989. However, in some materials markets—steel, aluminum, lumber, pulp & paper—output remained too strong this past year and inventories relative to shipments are still climbing.

Cahners' Index of 125 Industrial Leadtimes declined an estimated 6.4% this past year and will hover at its current level throughout most of 1990.

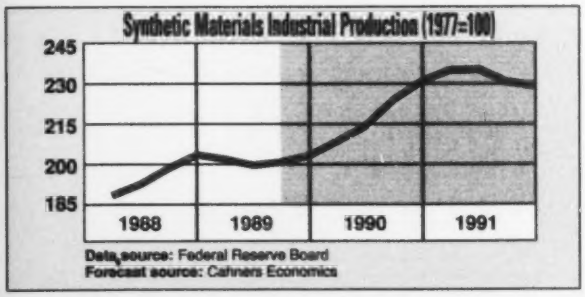
On balance 1990 will be a growth year for the process industries. Process segments which emphasize exports or which feed consumer industries, including homebuilding, will fare best. By the end of the year, all process segments should be seeing renewed growth as an anticipated resurgence in durable goods manufacturing kicks in. Most industrial materials will be easily available and prices will lose ground while suppliers adjust to lowered demand. □



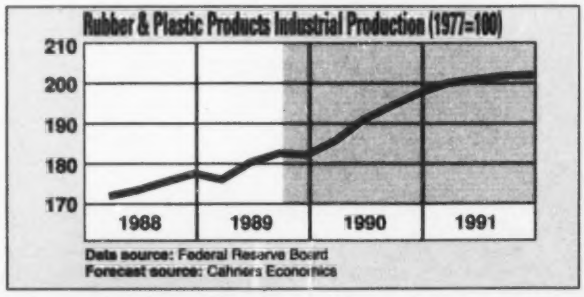
Output of process industries will pick up this year to an annual rate of 4.3%.



Industrial production of paper products, which was virtually flat in 1989, will rebound to the tune of 3.9% in 1990.



Inflation-adjusted output of synthetic materials will skyrocket 8.9% this coming year and rise another 5.9% in 1991.



Rubber and plastics industries will continue their steady growth paths in the next two years.

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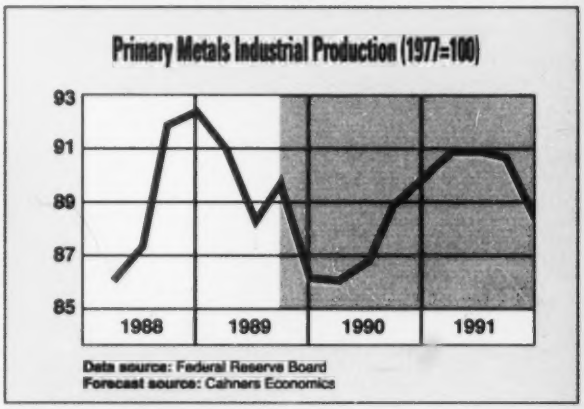
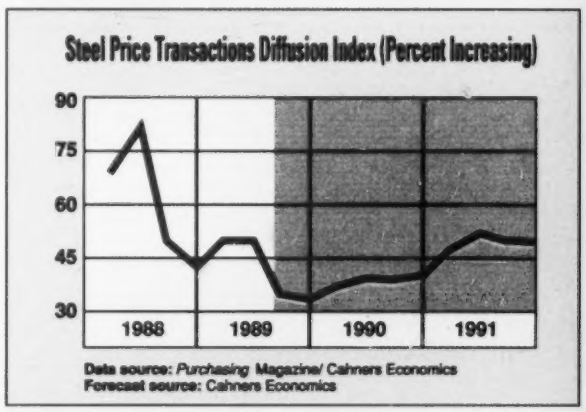
SUPPLY OUTLOOK

Surplus of steel and shortage of copper continues

Copper has been plagued by supply disruptions, but large capacity expansions have been underway. Also, many problems underpinning supply shortages have been resolved. Analysts point to a possible 400,000 tons of excess supply in 1990. Domestic steel output is being slashed, but it may be too late. According to a member survey conducted by the Steel Service Center Institute, over half of the respondents said inventories relative to shipments were too high in consecutive months between May and October. Worldwide demand for steel has weakened, and some exporters have begun dumping in U.S..



Output of primary metals will decline marginally this year after a 0.8% slump in 1989.



The diffusion index of transaction prices will stay below the 50% mark through most of this and next years.

Industrial Distribution®, (ISSN 0019-8153) is published monthly by The Cahners Publishing Co., A Division of Reed Publishing USA, 275 Washington St., Newton, MA 02158-1630. Terrence M. McDermott, President; Frank Sibley, Senior Vice President/General Manager, Boston Division; Ellsworth M. Brown, Jr., Group Vice President; Jerry D. Neth, Senior Vice President/Publishing Operations; J.J. Walsh, Senior Vice President/Finance; Thomas J. Dellamaria, Senior Vice President/Production and Manufacturing; Ralph Knupp, Vice President/Human Resources. Circulation records are maintained at Cahners Publishing Co., 44 Cook Street, Denver, CO 80206-5800. Telephone: (303)388-4511. Second-class postage paid at Denver, CO 80206-5800 and additional mailing offices. POSTMASTER: Send address corrections to INDUSTRIAL DISTRIBUTION® at the Denver address.

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REPRINTS: For quotes, contact Reprint Services, 1350 E. Touhy Ave., Des Plaines, IL 60018; (312) 635-8800